

MEMO

DATE: July 7, 2005

TO: Administration Committee
Regional Council

FROM: Debbie Dillon, Human Resources Manager, 213.236.1870, dillon@scag.ca.gov

SUBJECT: Merit Pay Program Status Report

EXECUTIVE DIRECTOR'S APPROVAL:

SUMMARY:

On June 7, 2001, the Regional Council approved recommendations contained in the Compensation study conducted by Personnel Concepts, Inc. One component of that study was the recommendation to implement the Pay for Performance Program. The parameters of that study have been the basis for SCAG's performance evaluation process and compensation planning over the course of the last two-plus years.

Policy direction from the Regional Council in 2001 included applying the Pay for Performance Program to all employees in the senior level positions and above. This includes executive management, managers, supervisors, leads, and seniors. All other employees were to stay on the current compensation system until a later date.

SCAG staff receives compensation adjustments only through the Merit Pay Program. The percentage increases per rating category, as approved by the Regional Council in 2001, are as follows:

Evaluation Rating	Percentage Adjustment
Excels	7-9%
Above Standards	4-6%
Meets Standards	1-3%
Needs Improvement or Unsatisfactory	0

SCAG staff does not receive cost of living adjustments and they do not receive step increases. The salary ranges may be adjusted annually if they are determined by a salary survey to no longer be at the Regional Council approved level of the 75th percentile. A salary survey is conducted annually to determine if adjustments are necessary. Any suggested changes to the ranges are provided to this committee prior to implementation.

BACKGROUND:

To assist in the implementation of the Pay for Performance Program, a new performance evaluation process was implemented during fiscal year 2002/2003.

In November 2003 the Personnel Committee received a report on the status of the program and information that staff would expect to be recommending extension of the program to the rest of the staff in June 2004.

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In April 2004 the Personnel Committee received a status report and a staff recommendation to extend the Pay for Performance program to all employees for a two-year pilot period. The Personnel Committee provided input and concurred with staff's recommendation and recommended to the Administration Committee and the Regional Council to extend the two-year pilot program to all staff in July 2004.

In May 2004 the Administration Committee and the Regional Council received a status report and a staff recommendation to rename the program Merit Pay based on the input from this Committee and to extend the program to all employees effective July 1, 2004. The Regional Council approved the Merit Pay two-year pilot program and requested six month status updates.

In July 2004 all employees were evaluated and compensated under the Merit Pay pilot program.

In October 2004 and June 2005 a status report on the program was provided to the Personnel Committee.

ANNUAL PERFORMANCE EVALUATION PROCESS

- Development and use of a new, common evaluation format for all staff
- Clear definition of criteria and rating scale
- Linkage of the process to annual work plan, budget, and fiscal year
- Training in group setting to all Directors, Managers, and Supervisors
- Mentoring and coaching throughout process
- Self-evaluation and performance agreement required from each employee
- Issued all evaluations in specified timeframe after careful review by Executive Management and Human Resources
- All employees, except probationary, were moved to a July 1 evaluation date from an anniversary date format in 2003
- Mid-year evaluations were completed for all employees in February/March of 2004
- All employees received Merit Pay Program evaluations and compensation in July 2004
- Mid-year evaluations were completed for employees in February/March 2005
- All employees will be evaluated in July 2005 for fiscal 2004/2005 with merit pay compensation adjustments in July 2005

EVALUATION RATING STATISTICS FOR THE LAST 2.5 YEARS

The evaluation rating breakdown and applicable salary adjustment is listed below. In July 2003, employees below senior level were eligible for 3% only. In July 2004, all employees became eligible for the Merit Pay program. In both years, employees who are at the top of the salary range received a lump sum equivalent to the percentage that was over the top salary range. Historically, these lump sum payments have not been counted by CalPERS as part of an employee's eligible compensation. However, the Regional Council approved counting them towards CalPERS prospectively at the June 2005 meeting subject to CalPERS written approval.

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EVALUATION RATING STATISTICS FOR THE LAST 2.5 YEARS

Evaluation Rating Scale	July 2003 Ratings	July 2003 % Salary Adjustment*	03/04 Mid-Year Ratings	July 2004 Ratings	July 2004 % Salary Adjustment	04/05 Mid-Year Ratings
Excels	17 or 17%	8%	10 or 10%	13 or 13%	7%	5 or 5%
Above	23 or 22%	5%	25 or 25%	31 or 31%	5%	19 or 20%
Meets Standard	59 or 57%	3%	64 or 63%	51 or 51%	3%	65 or 68%
Needs Improvement	4 or 4%	0	3 or 3%	6 or 6%	0	5 or 5%
Unsatisfactory	0	0	0	0	0	0
TOTAL**	103		102	101		95

* Employees below Senior Level received 3%; all-other employees eligible for more than 3%.

** Excludes Probationary Employees

Average overall salary increase for fiscal years 2002/2003 and 2004/2005 were 3.64% and 4.3%, respectively.

CONCLUSION

We are on target for a third year evaluation process and the second year of applying the Merit Pay compensation adjustments to all employees. The rating distribution is a good indicator of the performance of the organization as a whole. We determined the success of the program based on the rating statistics, the content of the written evaluations and the effectiveness of performance management on improving staff performance.

It has been a valuable process for seeking input. We will continue to seek feedback from all levels of the workforce and make refinements to the program as we progress. We will continue to seek feedback in August 2005 to make adjustments or changes to the rating factors, criteria, process and forms. Performance evaluation and performance management training was provided in November 2004 and May 2005 for all supervisory and management employees. It will continue to be provided in the future. The annual review cycle will be completed by July 15, 2005. We have seen improvement in performance expectations and performance management with the refinement of the program. We will continue to refine the rating criteria, the linkage of the rating criteria to SCAG's business objectives and the process itself.